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DE RUEHSO #0528/01 2761617  
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FM AMCONSUL SAO PAULO  
TO RUEHC/SECSTATE WASHDC 8566  
INFO RUEHBR/AMEMBASSY BRASILIA 9698  
RUEHRG/AMCONSUL RECIFE 4212  
RUEHRI/AMCONSUL RIO DE JANEIRO 8874  
RUEHBU/AMEMBASSY BUENOS AIRES 3263  
RUEHAC/AMEMBASSY ASUNCION 3510  
RUEHMN/AMEMBASSY MONTEVIDEO 2786  
RUEHSG/AMEMBASSY SANTIAGO 2510  
RUEHLP/AMEMBASSY LA PAZ 3923

UNCLAS SECTION 01 OF 02 SAO PAULO 000528

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E.O. 12958: N/A

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SUBJECT: Senator Hagel Meets Sao Paulo Business/Political Leaders

¶1. Summary: Senator Chuck Hagel visited Sao Paulo September 2-3, during which time he met with a variety of interlocutors, including local business representatives as well as foreign policy experts and the Sao Paulo State Governor (foreign policy and Serra discussions Septel). Business contacts were excited about Brazil's potential as an energy producer and expressed an eagerness to partner with the U.S. They wanted trade conflicts managed carefully to avoid damage to a fundamentally good bilateral relationship. They also hoped that the U.S. would remove its tariff on imported ethanol. End Summary.

Economic Breakfast: Business Leaders Laud Brazil's Potential

¶2. Senator Hagel met over breakfast with key representatives from Brazil's private sector during his September 2 visit to Sao Paulo. Guests in attendance were: Mrio Marconini (President, Manatt Jones Marconini Global Strategies, representative of Brazil's private sector in recent Doha free trade negotiations); Josu Gomes da Silva, President Coteminas and Brazil Chair of the US-Brazil CEO Forum; Keith Martin, General Manager for Institutional Relations and Policy Analysis for mining giant Vale do Rio Doce; Mauricio Novis Botelho, President EMBRAER; Jos Carlos Grubisich, President of ETH Bioenergia; and Roberto Rodrigues, former Minister of Agriculture.

¶3. Former Agricultural Minister Rodrigues described how "agro-energy" could transform developing countries, by turning many poor, "third world" sugar cane producers into energy exporters through ethanol. Jos Carlos Grubisich spoke optimistically about "green plastics," the idea that future plastics could be fashioned from agricultural inputs. Observers praised the present state of the U.S.-Brazil relationship, which they said was closer than ever.

¶4. While the general discussion was highly positive, interlocutors noted that there was still work to do, both in promoting development in Brazil and U.S.-Brazilian relations. Former Agricultural Minister Rodrigues lamented that Brazil lacked a strategy to complement its potential. He indicated that agricultural output could be doubled simply by reducing land dedicated to pasture. Gomes da Silva added, to general agreement, that the Brazilian state remains too big and absorbs capital that should go into investment. Finally, while observers lauded Ambassador Sobel's success in engaging Brazil at the highest levels, they observed that other countries' trade with Brazil (most notably China) was growing faster than that with the U.S.

Senator Hagel Meets with American Chamber of Commerce

¶5. The Sao Paulo American Chamber of Commerce (AmCham) held a Roundtable on the Business Climate and Biofuels for Senator Chuck

Hagel on September 2, 2008. The following from the Brazilian business world attended: Joseph Tutundjian, Managing Director, Rodobens Comercio International and Winner/Comex; Mickey Peters, President Duke Energy; Regina Nunes, President Standard and Poors; Roberto Pasqualin, Partner, Pasqualin Advogados; Plinio Nastari, President Datagro; Fernando Ribeiro, ETH Bioenergia ; Peter Dam, Colgate-Palmolive; Ricardo Ramos, Colgate-Palmolive; Manfred Wefers, Coimex; Joel Velasco, UNICA (the organization of Brazilian sugar cane producers); Domingo Lasso, ADM; Gabriel Rico, President of the AmCham.

¶16. Plinio Nastari identified energy and climate changes as the two major issues facing humankind, and ethanol, he said, offers the U.S. and Brazil a chance to work together on both these problems. Joseph Tutundjian added that Brazil is going to be an important petroleum producer. He recommended that the U.S. and Brazil form a bilateral commission to look at both ethanol and oil together and to develop ways in which the two countries can cooperate on energy. Ambassador Sobel thought that the biofuels-oil joint discussion was a good idea, but that any such effort had to include input from the US Congress.

¶17. UNICA's Joel Velasco commented that the GOB's perspective on economic and trade issues is starting to catch up with new global realities. During the last Doha round, Brazil moved from its traditional, inwardly-focused approach to trade to the recognition that exports are critical to growth. Velasco said that President Lula had recognized this reality well ahead of many members of his government. Velasco criticized the subsidy on blending of 45 cents for firms in the US, while the import tariff remained at 54 cents for Brazilian ethanol.

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¶18. In this connection, Manfred Wefers, Joel Velasco, and Mickey Peters all warned that Brazil and the U.S. had to manage carefully their trade disputes. In Velasco's view, Brazil had won a moral "victory" in its recent WTO case against the US on cotton subsidies, but should not pursue cross-retaliation. Velasco noted that the GOB had considered taking the U.S. to the WTO over U.S. ethanol subsidies, but that UNICA preferred that the GOB seek a negotiated settlement.

Comment: Brazil Business Leaders Positive on U.S. Relations

¶19. Senator Hagel's vision impressed his Brazilian interlocutors and we have received a great deal of positive commentary since his departure. Brazil's business leaders are enthusiastic about both their country's prospects and the state of the U.S.-Brazil relationship. They see recent experience in the Doha round as a potential push for the GOB to become more pragmatic on trade. They want trade conflicts to remain contained. Finally, they clearly appreciated Washington's attention and hoped for its continuance.

¶10. This cable was coordinated/cleared by Senator Hagel's Staff and by Embassy Brasilia.

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